

Financial Statements of

**SASKATCHEWAN VALLEY
POTATO CORPORATION**

Year ended December 31, 2001



KPMG LLP
Chartered Accountants

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AUDITORS' REPORT TO THE SHAREHOLDER

We have audited the balance sheet of Saskatchewan Valley Potato Corporation as at December 31, 2001 and the statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2001 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
January 30, 2002



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SASKATCHEWAN VALLEY POTATO CORPORATION

Balance Sheet

December 31, 2001, with comparative figures for 2000

	2001	2000
Assets		
Current assets:		
Cash	\$ -	\$ 142,948
Accounts receivable	439,301	775,986
Inventories (note 3)	2,159,320	1,410,008
Prepaid expenses	49,716	44,019
	<u>2,648,337</u>	<u>2,372,961</u>
Capital assets (note 4)	5,246,135	19,585,789
	<u>\$ 7,894,472</u>	<u>\$ 21,958,750</u>

Liabilities and Shareholders' Equity (Deficit)

Current liabilities:		
Bank indebtedness	\$ 47,790	\$ -
Accounts payable and accrued liabilities	311,857	459,661
Advance from CIC III (note 5)	2,841,641	647,196
Deferred revenue	150,295	11,500
Current portion of long-term debt (note 6)	273,824	181,396
	<u>3,625,407</u>	<u>1,299,753</u>
Long-term debt (note 6)	5,431,636	5,243,321
Shareholders' equity (deficit):		
Share capital (note 7)	16,590,499	16,590,499
Deficit	(17,753,070)	(1,174,823)
	<u>(1,162,571)</u>	<u>15,415,676</u>
	<u>\$ 7,894,472</u>	<u>\$ 21,958,750</u>

See accompanying notes to financial statements.

On behalf of the Board:

Director

Director

SASKATCHEWAN VALLEY POTATO CORPORATION

Statement of Operations and Deficit

Year ended December 31, 2001, with comparative figures for the period from incorporation on May 11, 2000 to December 31, 2000

	2001	2000
Sales	\$ 2,663,516	\$ 478,011
Cost of sales	1,920,632	146,537
Gross margin	742,884	331,474
Operating expenses:		
Salaries and benefits	646,057	310,041
Administration	605,810	47,514
Interest on long-term debt	351,385	174,400
Interest	21,839	6,624
Property taxes	205,429	1,232
Bad debt	781,247	75,968
Repairs and maintenance	103,282	41,437
	2,715,049	657,216
Loss before the undermoted	(1,972,165)	(325,742)
Other income (expenses):		
Interest and other income	214,537	61,287
Start-up	-	(42,468)
Amortization	(520,619)	(198,619)
Provision for asset impairment (note 4)	(14,300,000)	-
	(14,606,082)	(179,800)
Net loss	(16,578,247)	(505,542)
Deficit, beginning of period	(1,174,823)	-
Related party transaction adjustment (note 8a)	-	(669,281)
Deficit, end of period	\$ (17,753,070)	\$ (1,174,823)

See accompanying notes to financial statements.

SASKATCHEWAN VALLEY POTATO CORPORATION

Statement of Cash Flows

Year ended December 31, 2001, with comparative figures for the period from incorporation on May 11, 2000 to December 31, 2000

	2001	2000
Cash flows from:		
Operations:		
Net loss	\$ (16,578,247)	\$ (505,542)
Items not involving cash:		
Amortization	520,619	198,619
Provision for asset impairment	14,300,000	-
Change in non-cash operating working capital:		
Accounts receivable	336,685	794,874
Inventories	(749,312)	(805,762)
Prepaid expenses	(5,697)	(29,711)
Accounts payable and accrued liabilities	(147,804)	64,747
Deferred revenue	138,795	7,500
	(2,184,961)	(275,275)
Financing:		
Advance from CIC III	2,194,445	647,196
Proceeds from long-term debt	462,139	-
Principal payments on long-term debt	(181,396)	(86,571)
	2,475,188	560,625
Investments:		
Purchase of capital assets	(480,965)	(142,402)
(Decrease) increase in cash	(190,738)	142,948
Cash, beginning of period	142,948	-
Cash (bank indebtedness), end of period	\$ (47,790)	\$ 142,948

See accompanying notes to financial statements.

SASKATCHEWAN VALLEY POTATO CORPORATION

Notes to Financial Statements

Year ended December 31, 2001

1. Nature of business and basis of presentation:

Saskatchewan Valley Potato Corporation ("SVPC") was incorporated on May 11, 2000 under the *Business Corporations Act of Saskatchewan* and commenced active operations on June 21, 2000. SVPC is a wholly-owned subsidiary of CIC Industrial Interests Inc. ("CIC III"). CIC III is a wholly-owned subsidiary of the Crown Investments Corporation of Saskatchewan ("CIC"), a Saskatchewan Crown Corporation. SVPC is not subject to Federal or provincial income taxes by virtue of this ownership. SVPC's accounts are included in the consolidated financial statements of CIC.

SVPC is primarily a seed potato production and storage company and also provides a full line of handling, marketing, and agronomic services to seed potato growers in the Lake Diefenbaker potato area.

These financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that SVPC will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business. SVPC experienced significant losses in 2001 and 2000 and has a working capital deficiency of \$977,070 at December 31, 2001. Additionally, SVPC has recorded a write-down of \$14,300,000 to reflect the impairment in the value of capital assets resulting from the reduced economic prospects for the business (see note 4).

The ability of SVPC to continue as a going concern and to realize the carrying value of its assets and discharge its liabilities when due is dependent on the continued support of CIC and CIC III and planned courses of actions which management believes will mitigate the adverse conditions and events which raise doubt about the validity of the "going concern" assumption used in preparing these financial statements. There is no certainty that these and other strategies will be sufficient to permit SVPC to continue beyond December 31, 2002.

The financial statements do not reflect adjustments that would be necessary if the "going concern" assumption were not appropriate. If the "going concern" basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the balance sheet classifications used.

2. Significant accounting policies:

(a) Basis of presentation:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

SASKATCHEWAN VALLEY POTATO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2001

2. Significant accounting policies (continued):

(b) Inventories:

SVPC seed potatoes in storage are valued at the lower of cost and net realizable value. Cost is defined as all field costs, handling costs, and storage costs incurred prior to December 31 of the production year. Net realizable value is determined based on either contract value or the Saskatchewan Seed Potato Growers Price List, adjusted for shrinkage.

Parts and chemical supplies inventory are valued at cost.

(c) Capital assets:

Capital assets are recorded at the lower of cost and net recoverable amount. Amortization is provided using the straight-line method and annual rates:

Asset	Rate
Storage sheds	40 years
Handling equipment	15 years
Dedicated equipment	15 years
Transport equipment	15 years
Field equipment	5 - 10 years
Plant and office equipment	2 - 5 years

SVPC reviews and evaluates its capital assets for impairment when events or changes in economic and other circumstances indicate that the carrying value of such assets may not be recoverable. The net recoverable amount of a capital asset is calculated by estimating its undiscounted future net cash flows together with its residual value. Future net cash flows are developed using assumptions that reflect SVPC's planned course of action for a capital asset given SVPC's best estimate of the most probable set of economic conditions. Inherent in these assumptions are significant risks and uncertainties. It is possible that changes in future economic conditions and the resulting impact on some or all of these assumptions may require a significant reduction in the carrying value of these assets.

(d) Revenue recognition:

Seed potato sales are recognized when potatoes are shipped. Storage, handling and agronomic services revenue is recognized as services are provided.

SASKATCHEWAN VALLEY POTATO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2001

2. Significant accounting policies (continued):

(e) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from these estimates.

3. Inventories:

	2001	2000
Seed produced	\$ 1,600,914	\$ 1,359,987
Seed purchased	523,282	21,600
Equipment parts	3,402	2,234
Chemical and supplies	31,722	26,187
	\$ 2,159,320	\$ 1,410,008

4. Capital assets:

			2001	2000
	Cost	Accumulated amortization	Net book value	Net book value
Storage sheds	\$ 17,979,446	\$ 13,991,767	\$ 3,987,679	\$ 17,830,286
Handling equipment	1,077,556	461,337	616,219	1,045,229
Dedicated equipment	307,745	121,888	185,857	297,687
Transport equipment	265,596	147,389	118,207	257,628
Field equipment	593,564	281,050	312,514	113,354
Plant and office equipment	49,556	23,897	25,659	41,605
	\$ 20,273,463	\$ 15,027,328	\$ 5,246,135	\$ 19,585,789

SASKATCHEWAN VALLEY POTATO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2001

4. Capital assets (continued):

Due to recurring operating losses and reduced economic prospects for the business, SVPC assessed the recoverability of the storage sheds and certain equipment. SVPC has written down the net book value of these assets based on the projected undiscounted future net cash flows from the use of these assets and the estimated sales prices that could be realized on any sale. Estimates of such undiscounted future cash flows from use and sales prices are subject to significant uncertainties and assumptions. Accordingly, actual results could vary significantly from such estimates.

Accordingly, SVPC has recorded a provision for asset impairment of \$14,300,000 of which \$13,500,000 relates to storage sheds and \$800,000 relates to certain equipment.

5. Advance from CIC III:

SVPC entered into a credit facility with its shareholder, CIC III, whereby SVPC has access to an operating line of credit of \$3,000,000 of which \$2,841,641 (2000 - \$647,196) has been drawn at December 31, 2001. The principal on the advance is payable on demand while interest was paid monthly at the Bank of Montreal prime rate less 0.75% up to March 1, 2001. Subsequent to March 1st and through the remainder of 2001, the advance was non-interest bearing.

6. Long-term debt:

	2001	2000
Mortgages payable, due March 2003 with interest at 6.21%, repayable in monthly instalments of \$ 42,764, secured by a first charge on two storage sheds, a general security agreement and guarantee by CIC III.	\$ 5,243,321	\$ 5,424,717
Demand loan due June, 2006 with interest at prime plus 1 1/2% repayable in annual instalments of \$92,428, secured by a general security agreement, a first charge on accounts receivable, inventory and equipment, and guarantee by CIC III.	462,139	-
	5,705,460	5,424,717
Less current portion	273,824	181,396
	\$ 5,431,636	\$ 5,243,321

SASKATCHEWAN VALLEY POTATO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2001

6. Long-term debt (continued):

Estimated principal repayments of long-term debt for the next five years are as follows:

2002	\$	273,824
2003		5,154,352
2004		92,428
2005		92,428
2006		92,428

7. Share capital:

	2001	2000
Authorized:		
Unlimited number of Class A voting common shares		
Issued:		
100 Class A shares	\$ 16,590,499	\$ 16,590,499

8. Related party transactions:

(a) Related party transaction adjustment:

SVPC purchased certain assets and liabilities (the "purchased assets") of a potato production and storage business previously owned by the Saskatchewan Water Corporation ("SWC") under two separate agreements dated June 30, 2000 and December 28, 2000. Under the first agreement, a portion of the purchased assets was acquired from SWC by CIC who then nominated SVPC to receive the purchased assets by way of a direct conveyance from SWC. SVPC issued 100 Class A common shares to CIC III as consideration for the purchased assets. Under the second agreement, SWC transferred title to the balance of the purchased assets directly to SVPC. SVPC assumed certain indebtedness of SWC as consideration for the purchase.

SWC and SVPC are subject to common control resulting in a non-arms length transaction. Accordingly, the difference between the carrying value of the assets and liabilities acquired and the purchase price was recorded as a charge to retained earnings.

SASKATCHEWAN VALLEY POTATO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2001

8. Related party transactions (continued):

(b) Other related party transactions:

Included in these financial statements are transactions with various Saskatchewan Crown Corporations, departments, agencies, boards and commissions related to SVPC by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions with related parties, which are not separately disclosed elsewhere in the financial statements, are as follows:

	2001	2000
Accounts receivable	\$ -	\$ 900
Accounts payable	-	18,536
Cost of sales	217,111	56,985
Administration	99,792	42,829
Interest	15,706	6,044

In addition, SVPC pays Saskatchewan Education and Health Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other transactions and amounts due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

SASKATCHEWAN VALLEY POTATO CORPORATION

Notes to Financial Statements (continued)

Year ended December 31, 2001

9. Financial instruments:

Fair values:

SVPC's financial instruments consist of cash, accounts receivable, an advance from CIC III, accounts payable and accrued liabilities and long-term debt.

The fair value of cash, accounts receivable, advance from CIC III and accounts payable and accrued liabilities approximates the carrying amount due to the short period to maturity.

The fair value of fixed rate long-term debt is based on the present value of future cash flows discounted at the December 31 borrowing rate for similar borrowing arrangements.

	2001		2000	
	Carrying amount	Fair value	Carrying amount	Fair value
Fixed rate long-term debt	\$ 5,243,321	\$ 5,388,500	\$ 5,424,717	\$ 4,970,000

Credit risk:

SVPC is exposed to credit risk from the potential default of customers. SVPC mitigates this risk through offset provisions contained in storage and handling services agreements and sales contracts.